The Management's Discussion and Analysis of Financial Condition and Results of Operations for Trulieve Cannabis Corp. is also included in the Form 10-K for the year ended December 31, 2020 filed on SEDAR on March 23, 2021 in its entirety.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" section of this Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements. You should read "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" contained in this Annual Report on Form 10-K.

Overview

We are a multi-state cannabis operator currently operating under licenses in six states. Headquartered in Quincy, Florida, we are the market leader for quality medical cannabis products and services in Florida and aim to be the brand of choice for medical and adult-use customers in all of the markets that we serve. All of the states in which we operate have adopted legislation to permit the use of cannabis products for medicinal purposes to treat specific conditions and diseases, which we refer to as medical cannabis. Recreational marijuana, or adult-use cannabis, is legal marijuana sold in licensed dispensaries to adults ages 21 and older. Thus far, of the states in which we operate, only California and Massachusetts have adopted legislation permitting commercialization of adult-use cannabis products.

As of December 31, 2020, we employed nearly 5,000 people, and we are committed to providing patients, which we refer to herein as "patients" or "customers," a consistent and welcoming retail experience across Trulieve branded stores. We have eight material subsidiaries: Trulieve, Inc., or Trulieve US, Leef Industries, LLC, or Leef Industries, Life Essence, Inc., or Life Essence, Trulieve Holdings, Inc., or Trulieve Holdings, and Trulieve Bristol, Inc. (formerly The Healing Corner, Inc. and referred to herein as "Healing Corner"), PurePenn LLC, Keystone Relief Centers, LLC (which we refer to as "Solevo Wellness"), and Trulieve WV, Inc., or Trulieve WV. Each of Trulieve US, Leef Industries, Life Essence, Trulieve Holdings, Healing Corner, PurePenn LLC, Solevo Wellness and Trulieve WV is wholly owned (directly or indirectly) by Trulieve Cannabis Corp. As of December 31, 2020, substantially all of our revenue was generated from the sale of medical cannabis products in the State of Florida. To date, neither the sale of adult-use cannabis products, nor our operations in Massachusetts, California, Connecticut, Pennsylvania and West Virginia, have been material to our business.

Florida

Trulieve US is a vertically integrated "seed to sale" cannabis company and is the largest licensed medical marijuana company in the State of Florida. As of December 31, 2020, publicly available reports filed with the Florida Office of Medical Marijuana Use show Trulieve US to have the most dispensing locations and the greatest dispensing volume across product categories out of all licensed medical marijuana businesses in the state. Trulieve US cultivates and produces all of its products in-house and distributes those products to patients in Trulieve branded stores (dispensaries) throughout the State of Florida, as well as directly to patients via home delivery. Our experience in the vertically integrated Florida market has given us the ability to scale and penetrate in all necessary business segments (cultivation, production, sales and distribution). Trulieve US has the experience necessary to increase market leadership in Florida and employ that expertise effectively in other regulated markets.

As of December 31, 2020, Trulieve US operated over 1,900,808 square feet of cultivation facilities across five sites. In accordance with Florida law, Trulieve US grows in secure enclosed indoor facilities and greenhouse structures.

Massachusetts

Life Essence is currently in the permitting and development phase for multiple adult-use and medical cannabis retail locations, as well as a cultivation and product manufacturing facility in Massachusetts. Life Essence has been awarded a Final Adult Use Marijuana Retailer License for an adult-use dispensary in Northampton and a Final Medical Marijuana Treatment Center License for medical marijuana cultivation and processing in Holyoke and an affiliated dispensing location in Northampton. Life Essence also holds Provisional Licenses for Adult Use cultivation and processing at the same facility in Holyoke, and provisional certificates of registration for medical marijuana dispensaries in Holyoke and Cambridge. Life Essence has received clearance to admit plant stock to the Holyoke facility, has completed adult-use licensure inspections, and now expects to receive final adult-use cultivation and processing licenses. The completion of these licensing processes will allow Life Essence to capitalize on its investment in infrastructure and engage in vertically integrated operations in both adult-use and medical markets in Massachusetts.

In October 2020, Life Essence entered into an asset purchase agreement with PCMV pursuant to which Life Essence agreed to purchase certain assets of PCMV including the rights to a Provisional Marijuana Retailer License from the Massachusetts Cannabis Control Commission, the right to exercise an option held by PCMV to lease real property in Framingham, Massachusetts for use as a marijuana retailer, and necessary municipal entitlements to operate as a marijuana retailer at the property. In December 2020, Life

Essence entered into an asset purchase agreement with Nature's Remedy and Sammartino Investments, LLC pursuant to which Life Essence agreed to purchase certain assets of Nature's Remedy including a Final Marijuana Retailer License from the Cannabis Control Commission, assignment of a long-term lease for real property in Worcester, Massachusetts for use as a marijuana retailer, and necessary municipal entitlements to operate as a marijuana retailer at the property. We expect the closing of both transactions to occur promptly following receipt of applicable state and local regulatory approvals.

California

Leef Industries operates a licensed medical and adult-use cannabis dispensary located in Palm Springs, California. Trulieve believes Leef Industries has demonstrated encouraging growth in the market, offering in-store and online shopping, along with product home delivery. Leef Industries is in the process of Trulieve rebranding and alignment with corporate operational standards, which we believe will increase consumer appeal and operational efficiency. The dispensary helps us stay abreast of trends on the west coast and in a robust and innovative cannabis market distinguished by local competition between diverse and numerous operators.

Connecticut

Healing Corner is a licensed pharmacist-managed medical cannabis dispensary located in Bristol, Connecticut. Healing Corner was founded in 2014 and provides a range of medical marijuana products produced by high quality licensed suppliers. At the dispensary, a licensed pharmacist and trained staff provide on-site counseling and education to patients. Patients may reserve their medical marijuana order through Healing Corner's innovative Canna-Fill online system. As of December 31, 2020, Healing Corner served approximately 10% of Connecticut's medical marijuana patient population.

Pennsylvania

On November 12, 2020, we completed the acquisition of 100% of the membership interests of: (i) PurePenn LLC and Pioneer Leasing & Consulting LLC, which we refer to collectively as PurePenn, and (ii) Keystone Relief Centers, LLC, which does business as and we refer to herein as Solevo Wellness. PurePenn operates marijuana cultivation and manufacturing facilities in the Pittsburgh, Pennsylvania area and currently wholesales the PurePenn and Moxie brands to 100% of the operating dispensaries in Pennsylvania. As of December 31, 2020, PurePenn has 35,000 square feet of cultivation space. Solevo Wellness operates three medical marijuana dispensaries with approximately 16,000 square feet of retail space, each with six points of sale, in the Pittsburgh, Pennsylvania area.

West Virginia

On November 13, 2020, Trulieve WV was awarded a processor permit by the West Virginia Office of Medical Cannabis. On January 29, 2021, Trulieve WV was notified that it has been awarded four dispensary permits by the West Virginia Office of Medical Cannabis. On March 22, 2021, we entered into a membership interest purchase agreement with Mountaineer Holding, LLC ("Mountaineer"). Mountaineer holds a West Virginia cultivation license and two dispensary licenses. We expected the transaction to close promptly following regulatory approval. We are actively working to begin operations as soon as reasonably practicable, which will vary by location depending on permitting and construction timelines.

Recent Developments

In October 2020, Life Essence entered into an asset purchase agreement with Patient Centric of Martha's Vineyard Ltd., or PCMV, pursuant to which Life Essence agreed to purchase certain assets of PCMV including the rights to a Provisional Marijuana Retailer License from the Massachusetts Cannabis Control Commission, the right to exercise an option held by PCMV to lease real property in Framingham, Massachusetts for use as a marijuana retailer, and necessary municipal entitlements to operate as a marijuana retailer at the property in exchange for 258,383 Subordinate Voting Shares, of which 10,881 are subject to a holdback for six months as security for any indemnity claims by us under the asset purchase agreement. The asset purchase agreement includes customary representations, warranties and indemnities. We expect the closing of the transaction to occur promptly following receipt of applicable state and local regulatory approvals. The issuance of the Subordinate Voting Shares at the closing will have a dilutive impact on our existing shareholders.

On November 12, 2020, we completed the acquisition of 100% of the membership interests of PurePenn and Solevo Wellness, expanding our operations into the Commonwealth of Pennsylvania. Pursuant to the terms of the PurePenn acquisition agreements, we acquired PurePenn for an upfront payment of $46.0 million, comprised of 1,298,964 Subordinate Voting Shares and $19.0 million in cash, plus a potential earnout payment of up to an additional 2,405,488 Subordinate Voting Shares based on the achievement of certain agreed EBITDA milestones. Pursuant to the terms of the Solevo Wellness acquisition agreement, we acquired Solevo Wellness for an upfront purchase price of $20.0 million, comprised of 481,097 Subordinate Voting Shares and $10.0 million in cash, plus a potential earn-out payment of up to an additional 721,647 Subordinate Voting Shares based on the achievement of certain agreed EBITDA milestones. The issuance of additional Subordinate Voting Shares in connection with the earnouts, if any, will have a dilutive impact on our existing shareholders.

On November 13, 2020, Trulieve WV was awarded a processor permit by the West Virginia Office of Medical Cannabis. On January 29, 2021, Trulieve WV was notified that it has been awarded four dispensary permits by the West Virginia Office of Medical Cannabis. On March 22, 2021, we entered into a membership interest purchase agreement with Mountaineer Holding, LLC ("Mountaineer"). Mountaineer holds a West Virginia cultivation license and two dispensary licenses. We expected the transaction to close promptly following regulatory approval. We are actively working to begin operations as soon as reasonably practicable, which will vary by location depending on permitting and construction timelines.

In December 2020, Life Essence entered into an asset purchase agreement with Nature's Remedy of Massachusetts, Inc., or Nature's Remedy, and Sammartino Investments, LLC pursuant to which Life Essence agreed to purchase certain assets of Nature's Remedy including a Final Marijuana Retailer License from the Cannabis Control Commission, assignment of a long-term lease for real property in Worcester, Massachusetts for use as a marijuana retailer, and necessary municipal entitlements to operate as a marijuana retailer at the property in exchange for $7.0 million in cash and 237,881 Subordinate Voting Shares, of which 23,788 are subject to a holdback for twelve months as security for any indemnity claims by us under the asset purchase agreement. The asset purchase agreement includes customary representations, warranties and indemnities. We expect the closing of the transaction to occur promptly following receipt of applicable state and local regulatory approvals. The issuance of the Subordinate Voting Shares at the closing will have a dilutive impact on our existing shareholders.

On March 21, 2021, in accordance with the terms of our Articles, an aggregate of 551,614 outstanding Super Voting shares converted automatically, without any action by the holders of such Super Voting Shares, into an aggregate of 551,614 Multiple Voting Shares.

Management's Use of Non-GAAP Measures

Our management uses financial measures that are not in accordance with generally accepted accounting principles in the United States, or GAAP, in addition to financial measures in accordance with GAAP to evaluate our operating results. These non-GAAP financial measures should be considered supplemental to, and not a substitute for, our reported financial results prepared in accordance with GAAP. Adjusted EBITDA is a financial measure that is not defined under GAAP. Our management uses this non-GAAP financial measure and believes it enhances an investor's understanding of our financial and operating performance from period to period because it excludes certain material non-cash items and certain other adjustments management believes are not reflective of our ongoing operations and performance. Adjusted EBITDA excludes from net income as reported interest, share-based compensation, tax, depreciation, acquisition and transaction costs, fair value step-up of inventory from acquisitions, non-cash expenses and other income. Trulieve reports adjusted EBITDA to help investors assess the operating performance of the Corporation's business. The financial measures noted above are metrics that have been adjusted from the GAAP net income measure in an effort to provide readers with a normalized metric in making comparisons more meaningful across the cannabis industry, as well as to remove non-recurring, irregular and one-time items that may otherwise distort the GAAP net income measure.

As noted above, our Adjusted EBITDA is not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income, which is the most directly comparable financial measure calculated and presented in accordance with GAAP. Because of these limitations, we consider, and you should consider, Adjusted EBITDA together with other operating and financial performance measures presented in accordance with GAAP. A reconciliation of Adjusted EBITDA from net income, the most directly comparable financial measure calculated in accordance with GAAP, has been included herein.

Components of Results of Operations

Revenue

We derive our revenue from cannabis products which we manufacture, sell and distribute to our customers by home delivery and in our dispensaries.

Gross Profit

Gross profit includes the costs directly attributable to product sales and includes amounts paid to produce finished goods, such as flower, and concentrates, as well as packaging and other supplies, fees for services and processing, allocated overhead which includes allocations of rent, administrative salaries, utilities, and related costs. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in margins over comparative periods as the regulatory environment changes.

Sales and Marketing

Sales and marketing expenses consist of marketing expenses related to marketing programs for our products. Personnel related costs related to additional dispensaries are the primary costs of sales and marketing. As we continue to expand and open additional dispensaries, we expect our sales and marketing expenses to continue to increase.

General and Administrative

General and administrative expenses represent costs incurred at our corporate offices, primarily related to personnel costs, including salaries, incentive compensation, benefits, and other professional service costs, including legal and accounting. We expect to continue to invest considerably in this area to support our expansion plans and to support the increasing complexity of the cannabis business. Furthermore, we expect to continue to incur acquisition and transaction costs related to our expansion plans, and we anticipate a significant increase in compensation expenses related to recruiting and hiring talent, accounting, and legal and professional fees associated with becoming compliant with the Sarbanes-Oxley Act and other public company corporate expenses.

Depreciation and Amortization

Depreciation expense is calculated on a straight-line basis using the estimated useful life of each asset. Estimated useful life is determined by asset class and is reviewed on an annual basis and revised if necessary. Amortization expense is amortized using the straight-line method over the estimated useful life of the intangible assets. Useful lives for intangible assets are determined by type of asset with the initial determination of useful life determined during the valuation of the business combination. On an annual basis, the useful lives of each intangible class of assets are evaluated for appropriateness and adjusted if appropriate.

Other Income (Expense), Net

Interest and other income (expense), net consist primarily of interest income, interest expense, and the impact of the revaluation of the debt warrants.

Provision for Income Taxes

Provision for income taxes is calculated using the asset and liability method. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

As we operate in the cannabis industry, we are subject to the limits of IRC Section 280E under which we are only allowed to deduct expenses directly related to the cost of producing the products or cost of production.

Results of Operations

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	**2019**	**$**	**%**
	(dollars in thousands)			
Revenues, Net of Discounts	$ 521,533	$ 252,819	$ 268,715	106%

Revenue for the year ended December 31, 2020 was $521.5 million, an increase of $268.7 million, from $252.8 million for the year ended December 31, 2019. Increase in revenue is the result of an increase in organic growth in retail sales due to an increase in products available for purchase and overall patient count. In addition, we opened 28 dispensaries in Florida for the year ended December 31, 2020, which increased retail sales year over year.

Cost of Goods Sold

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Cost of Goods Sold	$ 135,116	$ 60,982	$ 74,134	122%
% of Total Revenues	26%	24%		

Cost of goods sold for the year ended December 31, 2020 was $135.1 million, an increase of $74.1 million, from $61.0 million for the year ended December 31, 2019, due to an increase in retail sales as a result of an increase in dispensaries and patient count. Cost of goods sold as a percentage of revenue increased from 24% for the year ended December 31, 2019 to 26% for the year ended December 31, 2020 due to our expansion into new markets, one-time costs associated with the SAP implementation, inventory flow-through and product mix.

Gross Profit

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Gross Profit	$ 386,418	$ 191,837	$ 194,581	101%
% of Total Revenues	74%	76%		

Gross profit for the year ended December 31, 2020 was $386.4 million, up $194.6 million or 101% from $191.8 million for the year ended December 31, 2019, as a result of an increase in retail sales due to an increase in the number of dispensaries and patient count. Gross profit as a percentage of revenue decreased from 76% for the year ended December 31, 2019 to 74%, for the year ended December 31, 2020. This decrease is caused by an increase in depreciation related to capital expenditures in cultivation and processing to support business growth, expansion into new markets, one-time costs associated with the SAP implementation, inventory flow-through and product mix.

Sales and Marketing Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Sales and Marketing Expenses	$ 119,395	$ 59,349	$ 60,046	101%
% of Total Revenues	23%	23%		

Sales and marketing expense increased from $59.3 million for the year ended December 31, 2019, to $119.4 million for the year ended December 31, 2020, an increase of $60.0 million. The increase in sales and marketing is the result of a higher head count for the year, as we continue to add additional dispensaries in efforts to maintain and further drive higher growth in sales and market share. This increased head count resulted in higher personnel costs, which is the primary driver for the increase year over year.

General and Administrative Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
General and Administrative Expenses	$ 36,056	$ 14,071	$ 21,985	156%
% of Total Revenues	7%	6%		

General and administrative expense for the year ended December 31, 2020 increased to $36.1 million from $14.1 million for the year ended December 31, 2019, an increase of $22.0 million. The increase in general and administrative expense is the result of entering new markets and ramping our infrastructure to support growth initiatives and go-forward compliance.

Depreciation and Amortization Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Depreciation and Amortization Expenses	$ 12,600	$ 5,079	$ 7,521	148%
% of Total Revenues	2%	2%		

Depreciation and amortization expenses for the year ended December 31, 2020 was $12.6 million, up $7.5 million, or 148%, from $5.1 million for the year ended December 31, 2019. The overall increase in depreciation and amortization expenses was due to investment in infrastructure that resulted in more capitalized assets from the additional dispensaries. Furthermore, depreciation expense increased due to additional finance leases added.

Total Other Income (Expense), Net

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Total Other Income (Expense), Net	$ (60,917)	$ (9,658)	$ (51,259)	531%
% of Total Revenues	(12)%	(4)%		

Total other income (expense), net for the year ended December 31, 2020 was $(60.9) million, an increase of $51.3 million or 531%, from $(9.7) million for the year ended December 31, 2019. The overall increase is the result of our revaluation of debt warrants impacted by the increases in our stock value which were originally denominated in Canadian dollars. The expense for the year ended December 31, 2020 was $42.7 million compared to $0.8 million for the year ended December 31, 2019.

On December 10, 2020, the Company entered into a Supplemental Warrant Indenture with Odyssey Trust Company pursuant to which it amended the terms of the issued and outstanding subordinate voting share purchase warrants of the Company (the “Public Warrants”) to convert the exercise price of the Public Warrants to $13.47 per share, the U.S. dollar equivalent of the Canadian dollar exercise price of the Public Warrants of C$17.25. As a result of this, the Public Warrant converted to equity and eliminated the necessity of revaluation expense in future periods. Additionally, interest expense increased as a result of the addition of finance leases to support business growth, for the year ended December 31, 2020.

Provision for Income Taxes

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Provision for Income Taxes	$ 94,451	$ 50,586	$ 43,865	87%
Effective Tax Rate				

Income tax expense for the year ended December 31, 2020 increased to $94.5 million from $50.6 million for the year ended December 31, 2019, an increase of $43.9 million as a result of a $194.6 million increase in gross profit for the same periods. Under IRC Section 280E, Cannabis Companies are only allowed to deduct expenses that are directly related to production of the products. The increase in income tax expense is due to the significant increase in gross profit as a result of the increase in retail sales partially offset by increase in production costs as a percentage of revenue.

Net Income

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Net Income and Comprehensive Income	$ 62,999	$ 53,094	$ 9,905	19%

Net income for the year ended December 31, 2020 was $63.0 million, an increase of $9.9 million or 19%, from $53.1 million for the year ended December 31, 2019. The increase in net income was driven primarily by an increase in retail sales as a result of opening twenty-eight additional dispensaries in Florida during the year ended December 31, 2020. This net increase to net income was offset by gross profit which was driven by increased depreciation related to capital expenditures in cultivation and processing, expansion into new markets, one-time costs associated with the SAP implementation, inventory flow-through and product mix. In addition, increases in sales and marketing and general and administrative expenses such as personnel costs, dispensary expenses, depreciation, interest expense, costs of entering new markets, ramping infrastructure and go-forward compliance, all contributed to the offset in net income. Income taxes also significantly increased period over period due to higher profit. Lastly, other expense increased as a result of the revaluation of our debt warrants for the year ended December 31, 2020

Adjusted EBITDA

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	$	%
	(dollars in thousands)			
Adjusted EBITDA	$ 250,952	$ 126,409	$ 124,543	99%

Adjusted EBITDA for the year ended December 31, 2020, was $251.0 million, an increase of $124.5 million or 99%, from $126.4 million for the year ended December 31, 2019. The following table presents a reconciliation of GAAP net income (loss) to non-GAAP Adjusted EBITDA, for each of the periods presented:

	Year Ended December 31,	
	2020	2019
	(dollars in thousands)	
Net Income and Comprehensive Income	$ 62,999	$ 53,094
Add (Deduct) Impact of:		
Depreciation and Amortization	12,600	5,079
Depreciation included in Cost of Goods Sold	11,542	7,992
Interest Expense, Net	20,237	9,050
Provision for Income Taxes	94,451	50,586
EBITDA	201,829	125,802
Share-Based Compensation	2,765	—
Other Expense (Income), Net	40,680	607
Acquisition and Transaction Costs	4,724	—
Inventory Step up, Fair value	955	—
Total Adjustment	$ 187,953	$ 73,314
Adjusted EBITDA	**$ 250,952**	**$ 126,409**

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue, Net of Discounts

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Revenues, Net of Discounts	$ 252,819	$ 102,817	$ 150,002	146%

Revenue for the year ended December 31, 2019 was $252.8 million, an increase of $150.0 million, from $102.8 million for the year ended December 31, 2018. Increase in revenue is the result of an increase in our organic growth in retail sales due to the increase in products available for purchase and overall patient count. In addition, we opened 20 additional dispensaries for the year ended December 31, 2019, which increased retail sales year over year.

Cost of Goods Sold

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Cost of Goods Sold	$ 60,982	$ 22,385	$ 38,596	172%
% of Total Revenues	24%	22%		

Cost of goods sold for the year ended December 31, 2019 was $61.0 million, an increase of $38.6 million, from $22.4 million for the year ended December 31, 2018 due to increased retail sales as a result of our increase in dispensaries and patient count. Our cost of goods sold as a percentage of revenue increased from 22% for the year ended December 31, 2018 to 24% for the year ended December 31, 2019 due to the change in product mix as we introduced additional products during this period that had higher production costs.

Gross Profit

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Gross Profit	$ 191,837	$ 80,431	$ 111,406	139%
% of Total Revenues	76%	78%		

Gross profit for the year ended December 31, 2019 was $191.8 million, an increase of $111.4 million, from $80.4 million for the year ended December 31, 2018. Gross profit as a percentage of revenue decreased from December 31, 2018 compared to December 31, 2019 from 78% for 76%, respectively. Our increase of $111.4 million period over period is the result of the increase in retail sales due to the increase in our number of dispensaries and patient count. Our decrease in gross profit percentage is the result of adding additional products with higher production costs during the same period.

Sales and Marketing Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Sales and Marketing Expenses	$ 59,349	$ 25,050	$ 34,299	137%
% of Total Revenues	23%	24%		

Sales and marketing expense increased from $25.1 million for the year ended December 31, 2018, to $59.3 million for the year ended December 31, 2019, an increase of $34.3 million. The increase in sales and marketing is the result of higher head count for the year ended December 31, 2019 as compared to the year ended December 31, 2018 as we continue to build our sales team to maintain and further drive higher growth in sales and market share. The increased head count resulted in higher personnel costs, which is the driver for the increase in sales and marketing year over year.

General and Administrative Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
General and Administrative Expenses	$ 14,071	$ 19,156	$ (5,085)	(27%)
% of Total Revenues	6%	19%		

General and administrative expense for the year ended December 31, 2019 decreased to $14.1 million from $19.2 million for the year ended December 31, 2018, a decrease of $5.1 million. The decrease in general and administrative expense is the result of recording in 2018 the remaining stock compensation of $15.0 million related to founders' warrants. This decrease in expense for the year ended December 31, 2019 is offset by an increase in infrastructure expenses to support our continued business growth.

Depreciation and Amortization Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Depreciation and Amortization Expenses	$ 5,079	$ 1,138	$ 3,941	346%
% of Total Revenues	2%	1%		

Depreciation and amortization expenses for the year ended December 31, 2019 was $5.1 million, up $3.9 million, or 346% from $1.1 million for the year ended December 31, 2018. The overall increase in depreciation and amortization expenses was due to investment in infrastructure that resulted in more capitalized assets from the additional dispensaries and cultivation space. Additionally, we implemented Accounting Standards Codification, or ASC 842, *Leases* in 2019 and as a result there was additional amortization from finance leases.

Total Other Income (Expense), Net

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Total Other Income (Expense), Net	$ (9,658)	$ (2,044)	$ (7,614)	373%
% of Total Revenues	(4)%	(2)%		

Total other income (expense), net for the year ended December 31, 2019 was $(9.7) million, an increase of $(7.6) million or 373%, from $(2.0) million for the year ended December 31, 2018. The increase is the result of interest expenses related to the June and November Notes and the addition of finance leases in accordance with the new lease accounting standard effective for the year ended December 31, 2019.

Provision for Income Taxes

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Provision for Income Taxes	$ 50,586	$ 22,151	$ 28,435	128%
Effective Tax Rate	49%	67%		

Income tax expense for the year ended December 31, 2019 increased to $50.6 million from $22.2 million for the year ended December 31, 2018, an increase of $28.4 million as a result of a $111.4 million increase in gross profit for the same periods. Under IRC Section 280E, cannabis companies are only allowed to deduct expenses that are directly related to production of the products. The increase in income tax expense is due to the significant increase in gross profit as a result of the increase in retail sales partially offset by increase in production costs as a percentage of revenue due to the introduction of products with higher production costs.

Net Income and Comprehensive Income

	Year Ended December 31,		Change Increase / (Decrease)	
	2019	2018	$	%
	(dollars in thousands)			
Net Income and Comprehensive Income	$ 53,094	$ 10,893	$ 42,202	387%

Net income for the year ended December 31, 2019 was $53.1 million, an increase of $42.2 million, or 387%, from $10.9 million for the year ended December 31, 2018. The increase in net income was driven by the increase in retails sales as a result of opening twenty additional dispensaries during the year ended December 31, 2019. Gross profit as a percentage of revenue decreased period over period due to the introduction of new products with higher production costs. This net increase to net income was offset by the net increase in sales and marketing and general and administrative expenses related to the increase in personnel costs and increases in dispensary expense such as insurance, depreciation and interest expense costs. In addition, due to the implementation of the new accounting standard for leases, additional depreciation and interest expense was recorded period over period due to the additional leases completed for the new dispensaries. Income taxes also increased significantly period over period due to the higher margins realized due to the increase in revenue and efficiencies in production offset by production mix.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception, we have funded our operations and capital spending through cash flows from product sales, loans from affiliates and entities controlled by our affiliates, third-party debt and proceeds from the sale of our capital stock. We are generating cash from sales and are deploying our capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term to support our business growth and expansion. Our current, principal sources of liquidity are our cash and cash equivalents provided by our operations and debt and equity offerings. Cash and cash equivalents consist primarily of cash on deposit with banks and money market funds. Cash and cash equivalents were $146.7 million and $91.8 million as of December 31, 2020 and 2019, respectively.

We believe our existing cash balances will be sufficient to meet our anticipated cash requirements from the report issuance date through at least the next 12 months.

Our primary uses of cash are for working capital requirements, capital expenditures and debt service payments. Additionally, from time to time, we may use capital for acquisitions and other investing and financing activities. Working capital is used principally for our personnel as well as costs related to the growth, manufacture and production of our products. Our capital expenditures consist primarily of additional facilities and dispensaries, improvements in existing facilities and product development.

To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds. There can be no assurance that we will be able to obtain additional funds on terms acceptable to us, on a timely basis or at all. The failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the results of operations, and financial condition.

The following table presents our cash and outstanding debt as of the dates indicated:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash and Cash Equivalents	$ 146,713	$ 91,813
Outstanding Debt:		
Notes Payable	6,000	6,000
Notes Payable - Related Party	12,011	12,903
Other Long-Term Liabilities	130,000	130,000
Warrant Liability	—	9,892
Operating Lease Liability	29,605	23,143
Finance Lease Liability	38,935	19,439
Construction Finance Liability	$ 82,047	$ 22,956

Cash Flows

The table below highlights our cash flows for the periods indicated.

	Year Ended December 31, 2020	2019	2018
	(dollars in thousands)		
Net Cash Provided by Operating Activities	$ 99,643	$ 19,073	$ 23,517
Net Cash Used in Investing Activities	(174,654)	(94,673)	(51,055)
Net Cash Provided by Financing Activities	129,911	142,982	50,561
Net Increase in Cash and Cash Equivalents	54,900	67,383	23,023
Cash and Cash Equivalents, Beginning of Year	91,813	24,430	1,407
Cash and Cash Equivalents, End of Year	$ 146,713	$ 91,813	$ 24,430

Cash Flow from Operating Activities

Net cash provided by operating activities was $99.6 million for the year ended December 31, 2020, an increase of $80.6 million, compared to $19.1 million net cash provided by operating activities during the year ended December 31, 2019. This is primarily due to organic growth of our business partially offset by net working capital including inventory, as we ramp the business to support the growth.

Net cash provided by operating activities was $19.1 million for the year ended December 31, 2019, a decrease of $4.4 million, compared to $23.5 million net cash provided by operating activities during the year ended December 31, 2018. This is primarily due to the impact of changes in inventory and accounts payable and accrued liabilities related to our growth and expanded product mix, partially offset by our increase in net income as a result of the increase in dispensaries and organic growth as a result of increase in patient count.

Cash Flow from Investing Activities

Net cash used in investing activities was $174.7 million for the year ended December 31, 2020, an increase of $80.0 million, compared to the $94.7 million net cash used in investing activities for the year ended December 31, 2019. The increase is due to the Pennsylvania acquisition in 2020 and the increase of property and equipment purchases for the construction of additional dispensaries and continued expansion of our cultivation and processing facilities during the year ended December 31, 2020.

Net cash used in investing activities was $94.7 million for the year ended December 31, 2019, an increase of $43.6 million, compared to the $51.1 million net cash used in investing activities for the year ended December 31, 2018. The increase is due to the additional dispensaries and the construction and automation of our cultivation and processing facilities during the year ended December 31, 2019. In addition, we acquired Healing Corner during the year ended December 31, 2019.

Cash Flow from Financing Activities

Net cash provided by financing activities was $129.9 million for the year ended December 31, 2020, a decrease of $13.1 million, compared to the $143.0 million net cash provided by financing activities for the year ended December 31, 2019. The increase was primarily related to $83.2 million of proceeds for the issuance of shares offering that occurred for the year ended December 31, 2020. The increase was partially offset by the $122.2 million in net proceeds received from the debt issuance in 2019.

Net cash provided by financing activities was $143.0 million for the year ended December 31, 2019, an increase of $92.4 million, compared to the $50.6 million net cash provided by financing activities for the year ended December 31, 2018. The increase was primarily related to the $122.2 million net proceeds received from our recent debt issuance compared to the $46.0 million net proceeds raised with the subscription receipt offering in 2018. An additional increase as a result of the proceeds from the construction finance liability related to transactions for properties located in Massachusetts and Florida.

Funding Sources

Finance Liability, "June Warrants" and "November Warrants"

On June 18, 2019, we completed an offering using our Canadian prospectus of 70,000 units (the "June Units"), comprised of an aggregate principal amount of US$70.0 million of 9.75% senior secured notes maturing in 2024 (the "June Notes") and an aggregate amount of 1,470,000 subordinate voting share warrants (each individual warrant being a "June Warrant") at a price of US$980 per June Unit for a gross proceeds of US$68.6 million. Each June Unit was comprised of one June Note issued in denominations of $1,000 and 21 June Warrants.

On November 7, 2019, we completed an offering using our Canadian prospectus of 60,000 units (the "November Units"), comprised of an aggregate principal amount of US$60.0 million of 9.75% senior secured notes maturing in 2024 (the "November Notes") and an aggregate amount of 1,560,000 subordinate voting share warrants (each individual warrant being a "November Warrant") at a price of US$980 per November Unit for a gross proceeds of US$61.1 million. Each November Unit was comprised of one November Note issued in denominations of $1,000 and 26 November Warrants.

Promissory Notes

On April 10, 2017, we entered into an unsecured promissory note with a 12% annual interest rate, which was amended in January 2019 to extend the maturity by three years to 2022, with a balance as of December 31, 2019 of $4.0 million. On December 17, 2017, we entered into a promissory note dated December 7, 2017, with a 12% annual interest rate and a balance as of December 31, 2019 of $2.0 million. Each promissory note is due in 2021.

Related Party Promissory Notes

In February 2019, we entered into a 24-month unsecured loan with an 8% annual interest rate with Benjamin Atkins, a former director and shareholder of Trulieve for $257,337. In March 2018, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with Benjamin Atkins, a former director and shareholder for $158,900. In June 2018, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with Benjamin Atkins, a former director and shareholder for $262,010. In November 2018, the Company entered into two separate 24-month unsecured loans each with an 8% annual interest rate with a former director and shareholder for a total of $474,864.

In May 2018, the Company entered into two separate unsecured promissory notes (the "Traunch Four Note" and the "Rivers Note") for a total of $12.0 million. The Traunch Four Note is held by Traunch Four, LLC, an entity whose direct and indirect owners include Kim Rivers, the Chief Executive Officer and Chair of the Board, as well as Thad Beshears, Richard May, George Hackney, all of whom are directors of Trulieve, and certain of Richard May's family members. The Rivers Note is held by Kim Rivers. Each promissory note has a 24-month maturity and 12% annual interest rate. The two unsecured promissory notes were amended in December 2019 to extend the maturity one year to May 2021, all other terms remain unchanged.

Balance Sheet Exposure

At December 31, 2020 and 2019, 100% of our balance sheet is exposed to U.S. cannabis-related activities. We believe our operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which we operate. However, cannabis remains illegal under U.S. federal law. Substantially all our revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to "Risk Factors" in this prospectus.

Contractual Obligations

At December 31, 2020, we had the following contractual obligations to make future payments, representing contracts and other commitments that are known and committed:

	<1 Year	1 to 3 Years	3 to 5 Years	>5 Years	Total
			(dollars in thousands)		
Accounts Payable and Accrued Liabilities	$ 41,902	$ —	$ —	$ —	$ 41,902
Notes Payable	2,000	4,000	—	—	6,000
Notes Payable - Related Party	12,011	—	—	—	12,011
Other Long-Term Liabilities	—	—	130,000	—	130,000
Operating Lease Liability	5,480	10,681	9,764	14,225	40,150
Finance Lease Liability	6,964	12,899	11,375	24,669	55,907
Construction Finance Liability	$ —	$ —	$ 61,071	$ 20,977	$ 82,047

Critical accounting policies and estimates

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates, revisions to accounting estimates are recognized in the period in which the estimate is revised.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below

Estimated Useful Lives and Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Accounting for acquisitions and business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired and consideration paid are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Inventories

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price, what we expect to realize by selling the inventory and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Goodwill Impairment

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill may have been impaired, we perform a qualitative assessment to determine if it was more-likely-than-not that the reporting unit's carrying value is less than the fair value, indicating the potential for goodwill impairment. When applying this valuation technique, we rely on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Share-based payment arrangements

We use the Black-Scholes pricing model to determine the fair value of warrants granted to employees and directors under share-based payment arrangements, where appropriate. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of future share price, risk free rates, and future dividend yields at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Critical accounting policies

Inventory

Our inventories primarily consist of raw materials, internally-produced work in process, and finished goods and packaging materials. Costs incurred during the growing and production process are capitalized as incurred to the extent that cost is less then net realizable value. The costs include materials, labor and manufacturing overhead used in the growing and production processes. Pre-harvest costs are capitalized. Our inventory of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value.

Leases

ASC Topic 842 a standard that requires lessees to increase transparency and comparability among organization by requiring the recognition of Right of Use Assets “ROU” assets and lease liabilities on the balance sheet. The requirements of this standard include a significant increase in required disclosures to meet the objectives of enabling users of financial statement to assess the amount, timing, and uncertainty of cash flows arising from leases. The new standard was effective beginning January 1, 2019 and the standard was adopted using the modified retrospective transition approach, which allows us to recognize a cumulative effect adjustment to the opening balance of accumulated deficit in the period of adoption rather than restate comparative prior year periods.

Revenue Recognition

We recognize revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Through our application of the standard, we recognize revenue to depict the transfer of promised goods to our customers in an amount that reflects the consideration of which we expect to be entitled to in exchange for those goods. We contract with our customers for the sale of dried cannabis, cannabis oil and other cannabis related products that consist of multiple performance obligations. Revenue from the direct sale of cannabis to customers for a fixed price is recognized when we transfer control of the goods to the customer at the point of sale and the customer has paid for the goods.

Stock Based Compensation

We account for stock-based compensation expense in accordance with FASB ASC 718 Compensation – Stock Compensation, which requires the measurement and recognition of stock-based compensation expense based on estimated fair values, for all stock based payment awards made to employees. We measure the stock-based payment awards based on its estimated fair value of the awards using the Black-Scholes option pricing model, and the fair value of the Company’s common stock on the date of grant, for the warrants and options.

Off-Balance Sheet Arrangements

As of the date of this filing, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of, including, and without limitation, such considerations as liquidity and capital resources.